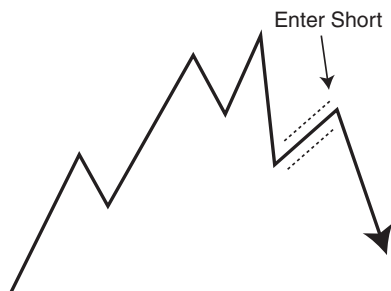


THE ANTI



Trade Type

Trend termination.

Concept This trade is a very specific pullback variation that attempts to enter the first pullback after a potential trend change.

Setup There are two setup conditions for this trade. The first is that the market must have made a pattern that suggests the current trend could be terminating. Many of these patterns were discussed in Chapters 3 and 5: loss of momentum on successive thrusts, an extremely overextended market on the higher time frame, some type of double top or bottom formation where the market is unable to make a continuation, or perhaps a failure test. The second requirement is that the market then makes a move that shows a distinct change of character, such as a shift of momentum against the old trend. In the case of an uptrend, a downswing would emerge that was much stronger than previous downswings. This move would likely register a new momentum low on momentum indicators, suggesting further that the integrity of the uptrend had been challenged. This is the setup sequence, and both parts are important: the *initial market structure* that provides justification for potential countertrend trades, followed by a *shift of momentum* that shows that the dominant trend players have lost control of the market.

Trigger The actual entry for this trade is in the first pullback following the strong countertrend price movement. For example, imagine a market that has been in an uptrend and then puts in a sharp downward spike (countertrend to the uptrend). The next bounce following that spike is potentially the first pullback in a new *downtrend*; this trade represents an attempt to reverse, or at least to create a significant pause in the pre-existing uptrend. Price action and evolving market structure must be carefully monitored in the pullback for warning signs that the pullback could fail and that the original trend may still be intact. This structure is a pullback and, to a great extent, can be traded like any other pullback. What distinguishes this pullback is its position in the evolving market

structure as the first pullback following a potential trend change; normal pullbacks are continuation patterns in established trends.

The Anti pullback may be entered via either of the two pullback entries already explored. The breakout entry may actually have a slightly better edge in this context than in a normal pullback, but it is also possible to position within the pullback using the support/resistance of the pattern itself. This is also a good example of how trading skills can be modular; the skills of trading pullbacks are applied here in another context. The third entry for this trade is probably not ideal. Because this is a countertrend trade, your risk point is clearly defined so you can simply enter anywhere into that first pullback with a stop outside the existing trend extreme (i.e., shorting into the first bounce following a strong down spike with a stop above recent highs). This is a sloppy entry in most cases, but there are times and time frames when we may not want to micromanage and fight over every tick.

Stop The general rule of stops in countertrend trades applies here: these stops must be respected without exception. There are two reasonable stops for this pattern. One choice is to simply put the stop beyond the trend extreme. Any price action inside that level (below it for an uptrend, above it for a downtrend) is consolidation and may still be supportive of trend change. If the level is violated, we know the countertrend attempt has failed and the probabilities favor trend continuation. This is the most conservative stop: farthest away from the market and at a level where the trend reversal has decisively failed.

More aggressive stops, corresponding to larger position sizes, can be placed closer to the market, using any of the guidelines for stops in pullbacks. As usual, there are at least two arguments to consider: One, these areas tend to be more volatile, so closer stops may be more likely to get hit in the noise. Two, there can be a lot of pent-up countertrend pressure at these inflections, and the move, once it starts to develop, is often very clean. The most important thing is to have a plan and to execute it consistently so you are not making emotionally driven decisions in the heat of battle.

Profit Target The question of where to take profits is tied in to the expectations for countertrend trades in general. In some sense, the term *countertrend* is a misnomer, because the ideal outcome is for a new trend to begin from the point the trade was initiated; the trade would then be a with-trend trade in this new trend. Countertrend trades demand closer profit targets and tighter risk management than with-trend trades because of the danger of exceptional volatility if the trend change fails and the old trend reasserts itself. One good profit-taking plan splits the difference, taking off a significant amount of the exposure (33 to 66 percent) at the first profit target and holding the rest for a possible extension into a new trend.

The MMO is an important factor in this trade. It is very common to see the first thrust after the initial pullback exhaust itself at the MMO, and then to see the market turn back down and eventually violate the previous trend extreme. Why? Because, at this point, the pattern has evolved into a complex consolidation, and trend continuation (of the

original trend) is more likely. Monitor the market carefully for action in the neighborhood of the MMO. If it breaks, there is the possibility that you have just caught a major trend reversal. If, however, it holds and there is no continued countertrend momentum (and the pattern suggests a complex consolidation), be very protective of any remaining profits in the position.

Figure 6.14 shows an example of a sell Anti on the 30-minute chart of SPY. Consider every element of this trade carefully: The market had been in an extended uptrend and gapped above the upper channel at A, indicating a potential climax and overextension. This was the first warning of a potential trend change. At B, a strong countertrend leg developed, longer in both price and time than previous upswings. This down leg showed a distinct change of character and suggested that the bulls might have lost control, at least for a moment. The momentum indicator confirmed, marking a significant new low (relative to its recent history) at B1. Point C marked a controlled pullback, and it is at this point we can begin to assess the balance of buyers and sellers in this market. It is entirely possible that the drop at B will be erased and the market will explode to new highs, but the clue will be price action at point C. If, as in this case, the upward movement is weak, the probabilities favor another leg down as a natural reaction to B. This is a



FIGURE 6.14 A Sell Anti on 30-Minute SPY Bars

subtle way to read the market, but these are important principles. Furthermore, there is no magic here and even beginning traders can quickly assimilate this type of thinking into their repertoires. The measured move objective (marked D in Figure 6.14) provided some minor support, and would have been a reasonable spot to take initial profits. Once those profits are booked, it also makes sense to tighten the stop so that the worst possible outcome is a breakeven trade.

Comments This is a powerful trade, and the sequence should be internalized: there must be, first, a reason for even contemplating the possibility of a countertrend trade; second, an initial impulse to confirm that the trend pattern is broken, that the dominant group has lost control of the market; and third, the actual entry in the pullback. This is a reliable pattern on all time frames, and is especially powerful for intraday traders when combined with time-of-day influences.

The name *Anti* is borrowed from Linda Raschke. In *Street Smarts: High Probability Short-Term Trading Strategies* (1996) she gives a specific definition of this trade in that it quantifies the momentums on two time frames using the stochastic indicator. The pattern essentially is that the fast and slow lines of the indicator are sloping against each other. Look at Figure 6.14 again and notice that the slow line (dotted) of the moving average convergence/divergence (MACD) has just rolled over, and the fast line hooks up after B1. This shows that the shorter-term momentum is against (hence the term *Anti*) the longer-term momentum following a shift of that longer-term direction. There is validity in that approach and screening tools can be developed off similar indicator patterns, but my preference is to focus on the price structure. The indicator will sometimes highlight structures that are not clearly visible on the price bars, but it will also give false positives at times. The core concept of this trade is captured more cleanly in the pure market structure approach.